

*Office of the Auditor General of Canada*

# **Auditing of Efficiency**

**October 1995**

# Foreword

## Purpose of the guide

This guide is for all staff conducting value-for-money audits of departments and agencies. It is intended to enhance their understanding of the Auditor General's mandate for auditing the efficiency of government operations, and to help them fulfil that mandate.

## Authority and application

The guidance in this document should be tailored as appropriate to meet the particular needs of the audit and the operating characteristics of the organization being audited. The Guide should be used in conjunction with the Value-for-Money Audit Manual. Although designed to offer guidance for work carried out on value-for-money (VFM) audits under the *Auditor General Act*, it should also be of assistance in conducting Special Examinations of Crown corporations.

## Contents of the guide

This Guide defines efficiency and provides a basic understanding of efficiency concepts. It outlines the framework of criteria and sub-criteria for addressing the efficiency components of value-for-money audits of departments and agencies. It also presents an overview of how these concepts and criteria are applied in the planning, examination, and reporting phases of an audit.

## Responsibilities

Value-for-money audits are generally conducted by multidisciplinary teams. This Guide is intended to help those teams identify efficiency issues and to undertake some of the work in auditing them, as appropriate. However, some of the work involved in auditing efficiency is specialized, and the Guide highlights those areas where the assistance of the relevant Functional Responsibility Leader (FRL) should be sought.

Conducting an audit of efficiency places responsibility on the audit Principal to determine:

- the extent to which the audit team members have sufficient and appropriate skills to conduct the work themselves;
- whether the team requires outside specialists with specific expertise in the operational activity to be audited and in the auditing of efficiency; and
- the nature, extent, and timing of any consultation with the Results Measurement Audit Functional Responsibility Leader.

Because they are related to resource management, efficiency issues are pervasive. Pursuing them may lead into overlapping areas such as human resource management, financial management and control, information technology, effectiveness, and reporting to Parliament. In such cases, it may be necessary for auditors to consult with the relevant FRLs, as appropriate.

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## 1. Introduction

01. The Auditor General's mandate for auditing the efficiency of government operations originates from section 7 (2) (d) of the *Auditor General Act*. It states "...The Auditor General ... shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that ... money has been expended without due regard to ... efficiency." This mandate is interpreted to include examining an entity's management systems, practices, and results to determine whether they demonstrate due regard to efficiency. It also includes assessing the level of efficiency achieved. This Guide is intended to help Office of the Auditor General (OAG) auditors fulfill that mandate. Some key points are the following:

- There are profound differences between the private and public sectors, as well as similarities. The forces of the marketplace do not always apply to government operations. The cost, quantity, and quality of government products and services usually are not determined by the forces of supply and demand, or by the profit motive and competitiveness present in the private sector. The similarities derive from an obligation to provide goods and services to clients. Public servants, however, have an additional responsibility to comply with government-wide management policies, multiple (and at times conflicting) program objectives, and service levels that in some cases may be defined by legislation. These factors need to be taken into consideration in assessing efficiency.
- Potential efficiency issues can be found in all government programs, activities, or operations related to the delivery of goods or services to internal or external clients, as well as in regulatory, enforcement, and revenue collection operations. Efficiency issues are most likely to be found in labour- or capital-intensive operations that consume significant amounts of resources. Materiality, risk significance, sensitivity, and the potential for improvement are some of the factors considered in selecting efficiency issues for examination.
- The concept of efficiency applies to all types of operations, even though some may have outputs that are not uniform and are consequently more difficult to measure against consistent standards. In operations with difficult-to-measure outputs, the assessment of efficiency focusses on controls, operational processes, and work methods used to achieve efficiency.
- In determining the scope of an audit of efficiency, auditors should consider all key factors influencing the relationship between goods and services produced and the resources used to produce them.
- A results-oriented audit approach should be followed wherever possible, because it can usually accomplish the audit objectives at least cost. Results in this context mean efficiency achievements compared against standards. This approach can be used only where results are measurable. In using a results-oriented audit approach, it may nevertheless be necessary to examine some critical systems to verify the efficiency information generated by the audited organization or to seek causes for any revealed inefficiencies.

## Auditing of Efficiency

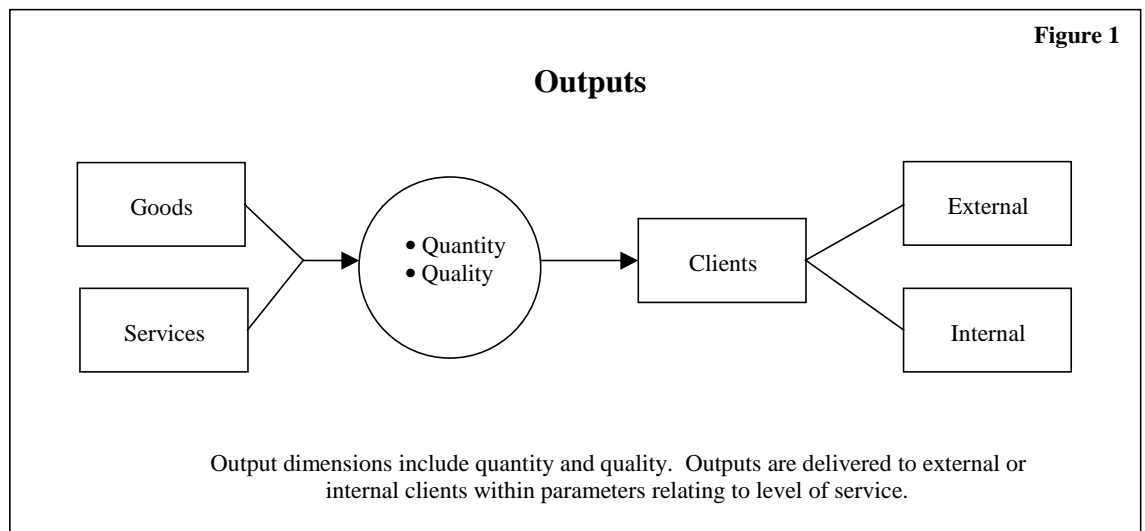
- The auditor may assess, among other aspects of efficiency management, the adequacy of efforts to improve efficiency. These include continuing efforts to achieve higher productivity, improved quality of outputs, or reduced cost of resource inputs, as appropriate.
- The *Auditor General Act* refers to “due regard” to efficiency. This should not be interpreted to mean that efficiency should be the overriding management priority in every case. In determining what is “due regard” in a particular case, the auditor has to take into account all management considerations, such as policy requirements, the relative importance of effectiveness and safety, and agreements with staff unions.
- In concentrating on the government’s efforts to achieve efficiency in its operations, auditors should not lose sight of the possible impact of those efforts on other levels of government or the private sector. The national economy may not benefit as a whole if efficiency is gained in one sector at the cost of another.

## 2. Understanding Efficiency Concepts

### What is Efficiency?

02. In essence, efficiency indicates how well an organization uses its resources to produce goods and services. Thus, it focusses on resources (inputs), goods and services (outputs), and the rate (productivity) at which inputs are used to produce or deliver the outputs. To understand fully the meaning of “efficiency”, it is necessary to understand the following terms: inputs, outputs (including quantity and quality), productivity, and level of service.

- Inputs are resources (e.g., human, financial, equipment, materiel, facilities, information, energy and land) used to produce outputs.
- Outputs are goods and services produced to meet client needs. Outputs are defined in terms of quantity and quality and are delivered within parameters relating to level of service (see Figure 1).

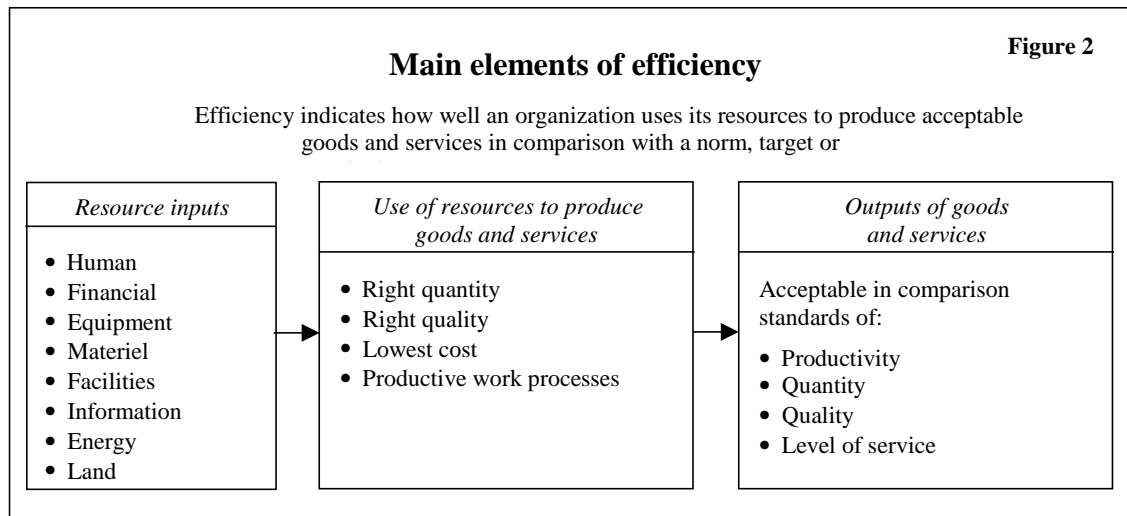


- **Quantity** refers to the amount, volume, or number of outputs produced. For example, number of passports issued, number of income tax returns processed, number of applicants selected as immigrants, and area of facilities maintained.
- **Quality** refers to various attributes and characteristics of outputs such as reliability, accuracy, timeliness, service courtesy, safety, and comfort.
- Productivity is the ratio of the amount of **acceptable** goods and services produced (outputs) to the amount of resources (inputs) used to produce them. Productivity is expressed in the form of a ratio such as cost or time per unit of output.

- Level of service refers to the “richness” of service in terms of such characteristics as accessibility, options, frequency, and response time. Level-of-service standards are sometimes defined by statute, regulations, or policies. Such standards may influence quality as well as the cost of service.

03. Staff and work processes, among other factors, determine the rate at which resources are consumed in producing goods or services. Thus, staff and work processes affect the productivity of an operation.

04. Efficiency is a relative concept. It is measured by comparing achieved productivity with a desired norm, target, or standard. Output quantity and quality achieved and the level of service provided are also compared to targets or standards to determine to what extent they may have caused changes in efficiency. Efficiency is improved when more outputs of a given quality are produced with the same or fewer resource inputs, or when the same amount of output is produced with fewer resources. These relationships are illustrated in Figure 2.



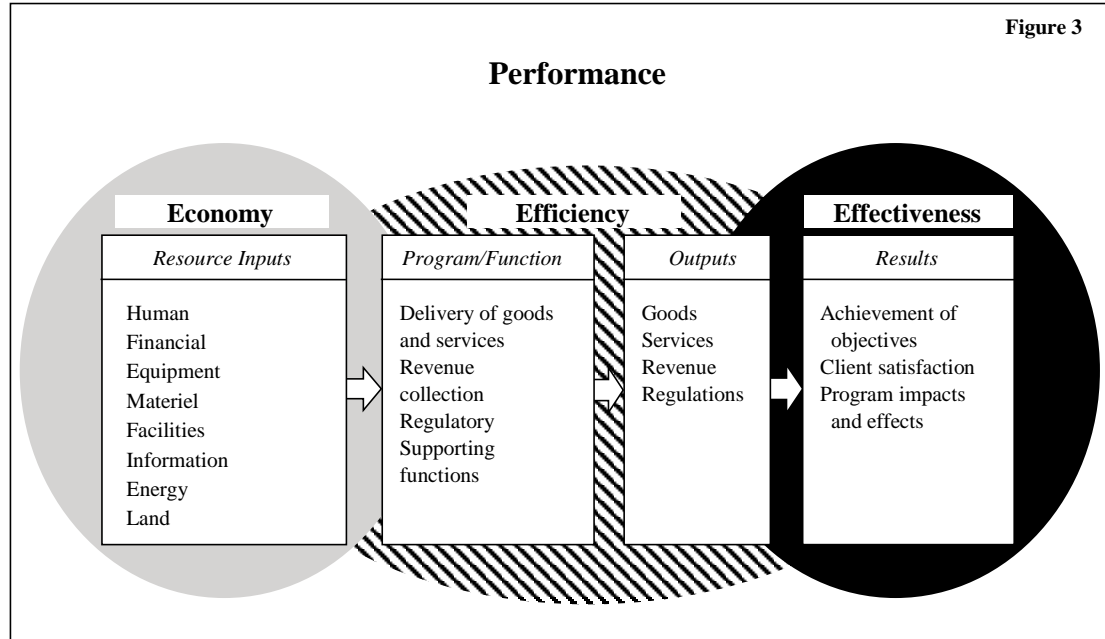
**How does efficiency relate to economy and effectiveness?**

05. Efficiency is only one dimension of the performance of a government program or operation. Auditors should be equally aware of other dimensions of performance, including economy and effectiveness.

06. Due regard to economy requires that resources of appropriate quantity and quality be obtained at least cost. Because efficiency derives from the relationship between resource inputs and outputs, the concepts of efficiency and economy are inextricably linked. Economic acquisition of resources contributes to efficiency by minimizing the cost of inputs used.

07. Effectiveness questions overlap with and extend beyond efficiency into program effects and impacts (outcomes). Efficiency is closely linked to effectiveness because it is an important factor in determining the least-cost method of achieving desired outcomes.

08. How economy, efficiency, and effectiveness are interrelated is displayed in Figure 3.



### Auditing operations with non-uniform outputs

09. Government operations cover a wide variety of work ranging from repetitive clerical tasks to complex intellectual analyses, and from manual tasks to automated operations using expensive equipment and technology. Efficiency of some operations with dissimilar outputs can be difficult to measure. Examples of such operations include planning, policy development, research, advisory support functions, administrative overhead, and project management.

10. Measurable operations have many features in common with difficult-to-measure operations. For example, both types of operations have to be planned, budgeted, operated, monitored, and controlled. Usually, all operations have clients who receive a service or product. The main difference is in the difficulty of measuring and assessing efficiency based on output/input ratios.

11. The manager's obligation to be prudent in the use of resources is pertinent to all operations, including those where efficiency is difficult to measure. All audit-worthy operations, regardless of the difficulty of **measuring** their efficiency, should be examined to determine whether management has demonstrated **due regard** to efficiency.

12. Where the efficiency of an operation is difficult to measure, auditors are expected to verify whether the controls, operational processes, and work methods are appropriate for minimizing resource inputs in the delivery of required goods and services or maximizing output with given resources. The following are a few examples of activities that auditors can consider as evidence of management's due regard to efficiency:



## Auditing of Efficiency

- Carrying out periodic reviews to eliminate redundant operations and intermediate or internal outputs that do not contribute to the organization's final outputs (e.g., administrative and overhead functions, useless reports).
- Using project management information covering milestones reached versus those planned, actual dates versus target dates, and resources used versus those budgeted.
- Comparing the total and component costs of operations (including overhead) with costs in other similar organizations.
- Reducing layers of control, speeding up decision making, and creating more shared services.
- Rationalizing products and services to better serve the needs of internal and external clients, and discontinuing outputs that are no longer needed.
- Reducing operational costs by contracting out work, when justified.
- Improving the quality and level of service to satisfy user demand without increasing costs.
- Developing better systems and work methods, including appropriate use of technology.
- Improving staff productivity through such things as better equipment, training and development, improved working conditions, incentives, and recognition of good performance.
- Identifying new opportunities to apply best practices based on appropriate comparisons with other departments, other jurisdictions, or the private sector.

### Measuring efficiency

13. Efficiency information is necessary for management to determine whether the level of efficiency achieved meets an acceptable standard. It is also necessary for comparing efficiency levels before and after corrective action.

14. Efficiency and associated factors usually can be measured and monitored best using a family of indicators focussing, for example, on various aspects of quantity, quality, and level of service. The purpose of using a family of indicators is to understand how related operational factors influence the efficiency of an operation. The related factors can then be controlled to improve efficiency.

15. **Measuring inputs.** Inputs (e.g., labour, materiel, or capital) can be measured in either physical or monetary terms. Labour inputs, for example, can be measured in units of time or dollars. Materiel and capital resources are generally measured in dollars.

16. **Measuring outputs.** Outputs of some operations are uniform. These outputs can be readily counted and the amount of resources consumed can also be measured to calculate the

efficiency of producing them. If outputs are not uniform, it is not appropriate to count them as standard units of production requiring equal amounts of resources for calculating efficiency.

17. **Standards for efficiency.** Standards provide a reference point or benchmark to measure and assess efficiency. Different kinds of standards can be used as benchmarks so long as they represent a reasonable level of expected efficiency.

- **Engineered standards.** These are developed with well-established work measurement techniques. Therefore, engineered standards provide a reliable basis for measuring and assessing efficiency levels.
- **Historical standards.** Productivity ratios, representing efficiency achieved in the past, can be used as a base to assess current efficiency levels.
- **Organizational comparisons (benchmarking).** Comparing against standards based on the achievements of other organizations that are doing similar work and are considered leaders in the field, or comparing with the generally accepted industry or business standards are other ways of assessing an organization's efficiency.
- **Capacity utilization.** The efficiency of staff, equipment, and facilities, etc., is strongly influenced by the extent to which such resources are used productively in relation to the time available for use. Utilization is expressed as the percentage of the available capacity that is actually used.

### **3. Auditing of Efficiency in Departments and Agencies**

#### **Objectives and scope of efficiency component of VFM audits**

18. Efficiency is usually but one element in a VFM audit of a program, activity, or operation. In some cases, however, efficiency can be the main focus of the audit because of its importance to achieving an operation's objectives. All significant variables that influence the relationship between the resources an organization uses and the goods or services it produces should be considered in determining the scope of audits examining efficiency issues.

19. The objectives of auditing efficiency can include assessing one or more of the following:

- the level of efficiency achieved by an organization or operation in relation to reasonable standards;
- the adequacy and reliability of systems or procedures used to measure and report efficiency;
- an organization's efforts to explore and exploit opportunities to improve efficiency; and
- whether the management processes and information systems, operational systems, and practices of an organization help to achieve efficiency.

20. Auditors should consider the overall scope of a VFM audit as well as its reporting themes and strategy in determining the audit objectives of its efficiency component.

#### **Benefits of auditing efficiency**

21. Auditing efficiency enables the OAG to inform Parliament whether departments and agencies manage resources with due regard to efficiency. It can also directly or indirectly help departments and agencies to identify opportunities to provide more or better services at the same or lower cost. More specifically, such audits can:

- help managers and staff to be more sensitive to their obligation of due regard to efficiency;
- underline the importance of measuring efficiency and of using that information for managing operations and providing accountability;
- identify means for improving efficiency, even in operations where efficiency is difficult to measure;
- demonstrate the scope for lowering the cost of delivering programs without reducing the quantity or quality of outputs or the level of service;
- increase the quantity or improve the quality of outputs and level of service without increasing spending; and

## Auditing of Efficiency

- identify needed improvements in existing controls, operational systems, and work processes for better use of resources.

### **Audit criteria**

22. The four main criteria and several sub-criteria used to assess whether resources are managed with due regard to efficiency are grouped into four broad areas of management responsibility; these are listed below and displayed in Figure 4.

- A. Efficiency Achievement Information
- B. Improving Efficiency
- C. Management Systems and Practices
- D. Work Environment

23. The criteria and sub-criteria provide a general framework to guide the auditor in examining the processes and factors critical to achieving and maintaining efficiency. They are not intended to provide a prescriptive model to tell managers how to manage their operations under all circumstances.

24. The full range of sub-criteria presented below may not apply to all organizations and programs. Judgment must be used to decide which audit approach (e.g., results or systems-based or a combination of both approaches), and which audit sub-criteria best apply to a particular audit, given its scope, objective and strategy, as well as the characteristics of the audit entity.

25. A results-based audit approach may be supported with a selective examination of a few critical systems to verify the reliability of available information on efficiency. Where the level of efficiency achieved by the audited operation is not satisfactory, more audit work may be required to find the causes for inefficiency. Such information would help to explain and support negative audit findings, and to make appropriate recommendations for corrective action. Where efficiency is satisfactory, relatively less audit work would be required.

26. In cases where results are difficult to measure or reliable information is not available, a systems-based audit approach may be appropriate. The purpose is to determine whether the existing systems and practices are consistent with achieving efficiency. The particular approach chosen will influence the selection of sub-criteria for the audit.

27. This audit framework, with the exception of a couple of sub-criteria related to the measurement and use of productivity ratios, applies to all types of operations, including those where outputs are difficult to measure.

<b>Figure 4</b>	
<b>Areas of management responsibility Addressed by efficiency audit criteria</b>	
<p><b>A. Efficiency Achievement Information</b></p> <ol style="list-style-type: none"> <li>1. Efficiency of measurable activities</li> <li>2. Efficiency of difficult-to-measure activities</li> <li>3. Quality/level of service indicators</li> <li>4. Utilization of resource activity</li> <li>5. Reporting and using efficiency information</li> </ol> <p><b>B. Improving Efficiency</b></p> <ol style="list-style-type: none"> <li>1. Delivery alternatives</li> <li>2. Improving existing methods of operations</li> <li>3. Use of technology and automation</li> <li>4. Continuing efforts to reduce the cost of inputs</li> </ol>	<p><b>C. Management Systems and Practices</b></p> <ol style="list-style-type: none"> <li>1. Strategic plans</li> <li>2. Operational plans</li> <li>3. Budgets and resource allocation</li> <li>4. Operating systems and procedures</li> <li>5. Monitoring and controlling operations</li> </ol> <p><b>D. Work Environment</b></p> <ol style="list-style-type: none"> <li>1. Efficiency as a priority</li> <li>2. Focus on clients and service</li> <li>3. Accountability</li> <li>4. Encouragement and recognition of performance</li> <li>5. Training and development</li> <li>6. Operating in the context of collective agreements</li> </ol>

**Criterion A. Efficiency Achievement Information**

28. Valid and reliable information on efficiency should be used to monitor, maintain, improve and report on efficiency.

**Sub-criteria**

1. **Efficiency of measurable activities.** Output/input ratios (unit costs, units per person-year, etc.), reflecting the amount of resources used to produce uniform and quantifiable outputs of goods and services, should be satisfactory in comparison with appropriate targets and standards.
2. **Efficiency of difficult-to-measure activities.** To achieve efficiency in operations without uniform or quantifiable outputs, project management information should be used, where appropriate, that covers milestones reached vs. those planned, actual dates vs. target dates, and resources used vs. those budgeted. The ratio of overhead cost to total operating cost also should be monitored.
3. **Quality and level-of-service indicators.** The quality and level of service achieved should be satisfactory in comparison with appropriate standards and targets that balance costs and reasonable expectations of clients.

4. **Utilization of resource capacity.** Optimum use should be made of available capacity of production facilities, equipment, and employees to produce targeted volumes of goods and services.
5. **Reporting and using efficiency information.** Relevant, timely, reliable, and complete efficiency achievement information should be reported for evaluation, strategic decision making, and accountability. Appropriate corrective action should be taken promptly.

**Criterion B. Improving Efficiency**

29. Opportunities and innovative ideas for improving efficiency should be explored continuously and exploited as appropriate.

**Sub-criteria**

1. **Delivery alternatives.** The feasibility of using other delivery methods to improve efficiency should be examined, including contracting out.
2. **Improving existing methods of operations.** There should be continuous examination of the feasibility of streamlining current systems and procedures, eliminating duplication and waste, and simplifying work processes and practices. This should be done with due regard to cross-functional impacts on the efficiency of the whole organization and on total costs.
3. **Use of technology and automation.** Opportunities for the use of information technology and the automation of manual operations should be continuously explored, and, where appropriate, exploited to reduce monotony and error level, to increase productivity, and to provide better service to clients.
4. **Continuing efforts to reduce the cost of inputs.**
  - a) Make/buy/lease or other options to reduce the cost of inputs, while maintaining their quality, should be reviewed.
  - b) Program overhead and administrative support functions should be minimized through conducting a needs analysis, sharing common services, re-engineering operational processes, and restructuring organizations — both to reduce layers of management and to speed up decision making.

**Criterion C. Management systems and practices**

30. Management controls, operational systems, and work processes and practices should demonstrate due regard to efficiency.

**Sub-criteria**

1. **Strategic plans.** Long-term strategic plans should demonstrate due regard to efficiency, among other priorities. Planning should include recognizing the risks and consequences of inefficient operations, determining the feasibility of switching to less costly methods,

rationalizing the range of goods or services provided, and restructuring the organization, where appropriate, to function more efficiently.

2. **Operational plans.** Annual operational plans should be based on sound principles of risk management, on efficient work methods and procedures, and on rational standards for output quantity, quality, and level of service.
3. **Budgets and resource allocation.** Annual operating budgets should be calculated using performance standards (e.g., output/input ratios) so that resource levels are appropriate for the planned volume of outputs. They should be based on the use of resources (human, financial, materiel, equipment, etc.) of appropriate quantity and quality, acquired at a price that will enable the organization to carry out its operational plan at minimum cost. Resources should be allocated rationally among organizational elements to optimize efficiency, among other considerations.
4. **Operating systems and procedures.** Operations should be designed and carried out using efficient systems, processes, procedures, and work methods, and with skilled staff who know what is expected of them.
5. **Monitoring and controlling operations.** Operations should be scheduled, supervised, and monitored. As necessary, timely corrective action should be taken, based on progress reports, to meet targets on time and within budget.

**Criterion D. Work environment**

31. A managerial and work environment that emphasizes efficiency and in which managers and staff are appropriately empowered and committed to achieving this should exist.

**Sub-criteria**

1. **Efficiency as a priority.** It should be emphasized that efficiency is a priority and that achieving it is a shared responsibility of managers and staff.
2. **Focus on clients and service.** The policy and practice at all levels should be to provide high-quality goods and responsive services to the public and other clients.
3. **Accountability.** Roles, responsibilities, authority, and accountability for efficiency matters should be defined clearly and communicated to those concerned.
4. **Encouragement and recognition of performance.** Incentives should be used, as appropriate, to encourage managers and staff to improve efficiency; their efforts and achievements should be recognized and rewarded appropriately.
5. **Training and development.** Managers and staff should be provided with appropriate training and development opportunities for continuing to improve productivity and quality in serving clients.
6. **Operating in the context of collective agreements.** Efforts to attain efficiency should take into consideration the related provisions of collective agreements.

#### **4. An Overview of the Planning, Examination, and Reporting Phases of Auditing of Efficiency**

32. The Office's VFM Audit Manual prescribes the audit process to be followed for carrying out VFM audits. Some special considerations that auditors should bear in mind during the planning, examination, and reporting phases for auditing efficiency issues are outlined below, without repeating the general guidelines.

##### **Planning phase**

###### **Overview stage**

33. **Understanding the entity.** In the overview stage, it is important to have a good understanding of the entity before finding out what factors are essential to its efficiency. Gaining a broad understanding of the entity involves gathering and analyzing information on matters such as:

- its environment, including legislation, policies, staff-union agreements, rules and regulations, stakeholders, and clientele;
- type and nature of business;
- key outputs and the operational processes used to produce them;
- significant factors affecting efficiency, including service standards;
- key management processes, information, and operational control systems relevant to efficiency; and
- key risks to efficiency.

34. **Selecting lines of enquiry.** The auditor should consider the following when assessing the audit worthiness and auditability of efficiency issues and selecting broad lines of enquiry:

- the size of an operation in terms of staff and the cost of all resources used; i.e., materiality;
- the importance of the operation to the public or to the departments and agencies it serves, or its sensitivity as perceived by parliamentarians.
- efficiency measurement systems and efficiency information generated; and
- major management processes, systems, practices, and operations that could influence efficiency.

###### **Survey stage**

35. During the survey stage, more information may be collected that reveals matters of potential significance. Basically, the survey consists of visits to sites to interview appropriate



managers and staff and to observe operations, reviews of files and reports, and broad comparisons of existing conditions with what we would expect to find in a well-managed organization.

36. **Scoping decision.** Efficiency is usually just one element of a VFM audit of a program, activity or operation. Occasionally, an audit may focus mainly on efficiency issues, for example, where they are critical to the success of an operation. Whether an audit should focus mainly on efficiency or on other dimensions of performance is an audit scoping decision. Auditors should consider other factors, such as the strategy, objectives and theme of the whole VFM audit, audit worthiness, and auditability of potential issues, before deciding to include efficiency issues in the audit scope.

37. Selection of matters for in-depth examination may be based on their materiality, risk significance, sensitivity, or potential for improvement. Some efficiency issues may overlap with other components of a VFM audit, requiring a co-ordinated audit approach. The VFM Audit Manual should be consulted to select an approach best suited to each case.

38. Different types of activities at varying levels of operation can be selected for an audit. High-level management processes that influence the overall efficiency of programs can be the subject of an audit as well as low-level administrative procedures. The selection of the type of activity and the level of detail of examination will depend on the audit objectives.

39. **Audit worthiness and auditability.** The survey may reveal any one or a combination of the symptoms or conditions listed below, which may indicate risks, weaknesses, or opportunities for improvement. However, symptoms of inefficiency alone **do not automatically** point to matters of potential significance. Materiality and sensitivity, associated risks, causes, and consequences have to be considered in assessing audit worthiness. The complexity of the subject, the audit methodology and skills needed, and the availability of resources have to be taken into account before selecting matters for in-depth examination.

40. **Symptoms of possible efficiency/inefficiency.** A key part of the survey is to look for symptoms of possible efficiency or inefficiency. The following could help identify potential efficiency issues:

- reasonableness of the information on efficiency achievement reported within and by the organization (volume of output, quality and service levels, utilization of staff, equipment or facilities, or unit cost of outputs);
- client complaints about any aspect of service;
- trends in resource levels compared with workload over the past few years;
- appropriateness of the organizational structure to avoid duplication of functions, unnecessary layers of management, and useless overhead functions;
- work backlog, absenteeism, overtime, and contracted service;
- opportunities to improve efficiency, such as the use of computers and other technology; and

- reasonableness of resource use (e.g., materiel, energy).

### Examination phase

41. In the examination phase, the auditor uses an appropriate audit program to probe efficiency issues and gather the evidence necessary to compare the efficiency-related conditions found in the organization with the specific criteria selected for the audit.

42. The sequence of addressing efficiency audit criteria would depend on the audit approach chosen and other practical considerations best suited to each audit. Where appropriate, the organization should be assessed first against Criterion A — Efficiency Achievement Information. Figure 5 displays one possible sequence of addressing criteria that may be appropriate in some audits, and the associated major questions to be answered in the examination phase.

43. The examination of key information on efficiency achievement, where available, is an essential step in auditing due regard to efficiency. Information on efficiency should be sought and assessed for all programs, functions, and activities included in the audit scope. Indicators of efficiency available from the organization should be carefully reviewed to determine whether they are complete, valid, and contain reliable information that is reported on a timely basis for corrective action. Alternatively, the auditor may have to compile the information independently.

44. An audit of overhead and support functions with outputs that are difficult to measure should include an examination of efforts to reduce operational costs and improve efficiency.

45. In assessing efforts to reduce costs and improve efficiency, the auditor must first form an opinion on what kind of efficiency improvements are possible and reasonable to expect in each specific situation, considering the latest computer, telecommunication or other relevant technology, and management techniques, as well as any constraints. The auditor then should determine whether appropriate and adequate efforts have been made to improve efficiency and verify improvements achieved.

### Reporting Phase

46. **Quantified supporting information.** Audit observations should, where applicable, use quantified information to demonstrate the importance of specific efficiency findings. For example, the magnitude of a problem could be explained in terms of frequency of occurrence, probability of risk, number of clients affected, and the number of staff (full-time equivalents) or budget dollars involved.

47. Missed opportunities and potential benefits can be estimated in terms of dollars or full-time equivalents, percentage of operating costs, or percentage of increase in productivity. In some cases, service indicators — waiting time, customers served, or percentage of errors — are the most appropriate data to present.

48. **Putting efficiency findings into perspective.** The audit report dealing with efficiency findings should reflect a clear understanding of all related considerations, including the program managers' perspectives and the constraints they face. Efficiency usually is only one aspect of a

VFM audit. Project leaders dealing with efficiency issues must discuss findings with other audit project leaders to ensure that they select an appropriate reporting strategy.

49. Some findings related to a certain audit criterion may influence the overall conclusion more than the findings related to other criteria. Consequently, decisions on the overall conclusion, the findings to be reported, and the reporting strategy should be made with due regard to the relative importance of the efficiency criteria used for the particular audit.

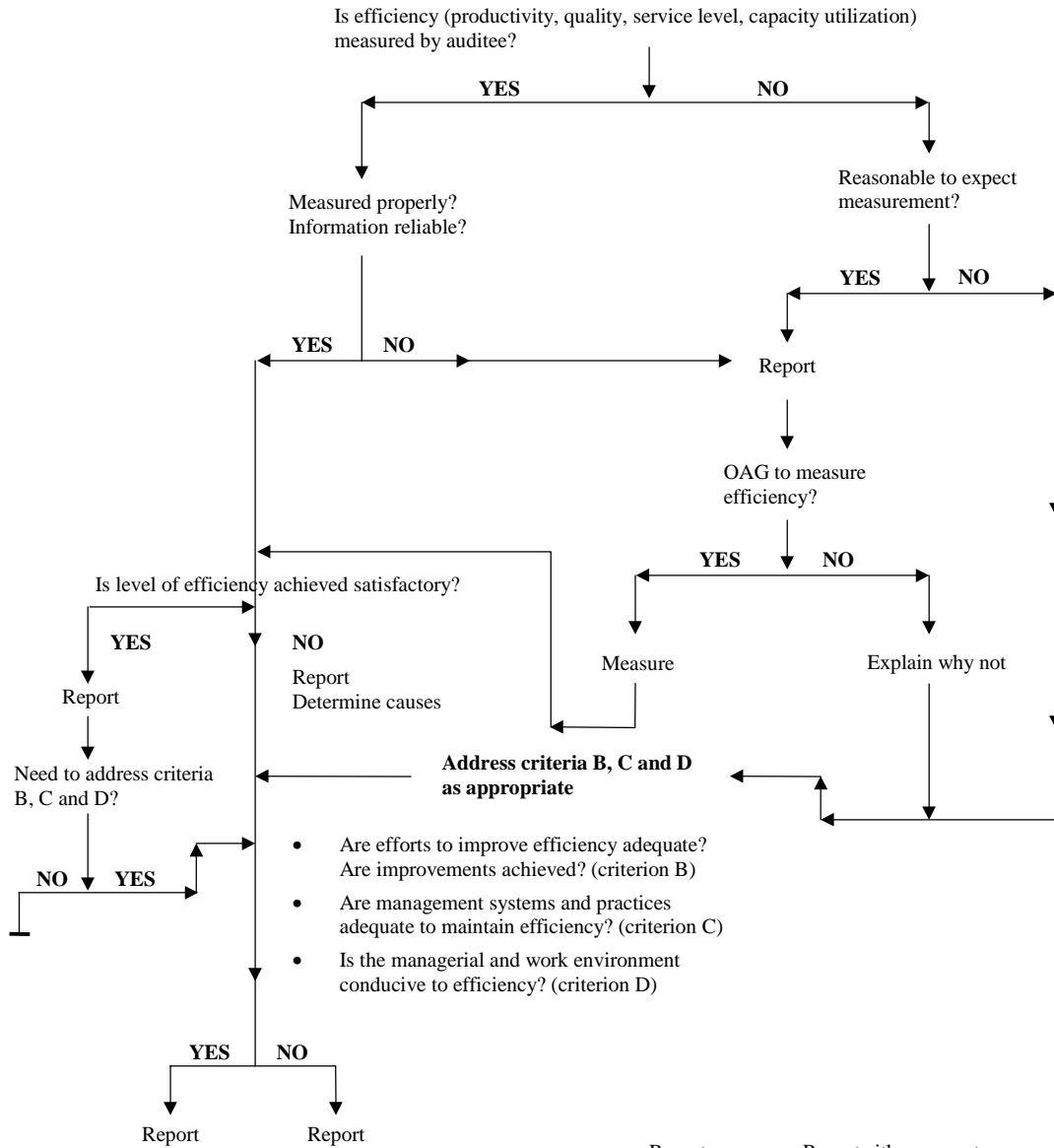
50. **Report content.** The report content will obviously depend on the scope and the nature of findings of each audit. Reports on efficiency normally should contain, as appropriate:

- an assessment of the current level of efficiency;
- a brief description of the causes of inefficiency;
- an indication of what can be done (at a reasonable cost) to correct the controls, operational processes, or other factors that are contributing to inefficiency; and
- an assessment of efforts to explore and exploit opportunities to reduce costs and improve efficiency, and the benefits achieved.

Figure 5

### Examining efficiency of an entity

#### Examine information on efficiency achievement (against criterion A)



Report means: Report either present results/conditions/practices as satisfactory or unsatisfactory and recommend appropriate action.

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